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Draft report

Need for financial resources (programme element II.a)

Conclusions

1. The Intergovernmental Forum on Forests (IFF) reiterated the relevance and validity of the Proposals for Action of the Intergovernmental Panel on Forests (IPF) on financial assistance. A substantial increase in financing from all sources, including domestic and international, public and private, is required for the effective management, conservation and sustainable development of all types of forests, especially in many developing countries. It is equally important to increase efficiency and effectiveness of available resources and existing mechanisms.

Alternative texts for the last sentence of para. 1

(EU):

[Developing countries, including countries with low forest cover and particularly the least developed countries, need special consideration in financial cooperation to meet their needs for forest products and services sustainably and sustainably manage their forests, and in some cases, expand their forest cover.]

(G77):

[Developing countries, particularly the least developed countries and countries with low forest cover, need special consideration in financial cooperation to meet their need for forest products services sustainably. These countries may also require special assistance to enable them to expand their forests and to [sustainably] manage their [unique types of] forests.]

2. IFF recognized the need for greater investment from all sources to promote sustainable forest management. Mobilizing new and additional financial resources for sustainable forest

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management requires innovative strategies that address the widely increasing need for public financing for forests as well as the creation of an attractive and adequate policy environment for private investments in sustainable forest management. Achieving the sustainable forest management policy goal requires recognizing the benefits of attaining profitability of sustainable forestry practices while discouraging unsustainable forest exploitation. In the case of domestic public and private sources, a major aim is to increase revenues from sustainably produced forest products and services, including [forest-related biological resources] [those related to biological diversity of forests] while encouraging the necessary reinvestment in sustainable forest management.

3. Private-sector investments in sustainable forest management are generally inhibited by factors resulting from policy and market imperfections as well as those related to the specific characteristics of forestry, such as risk and uncertainties associated with long rotation periods and uneven distribution of benefits and costs over time. There is a potential for sustainable forest management to be financially self-sustaining in the long run but bridging financing is often required during the transition period.

4. The roles of public and private sector financing sources are distinct but complementary and they should be jointly considered in financing strategies for sustainable forest management. However, private sector investment should not be considered a substitute for international public funding, including official development assistance (ODA). Both international and domestic public financing have supportive roles to play in the transition process to sustainable forest management. The purpose of public sector financing is, *inter alia*, to promote the enhancement of the environmental, social and economic functions of forests, whereas that of the private sector is often to generate wealth and create markets in a manner that is consistent with national policies and regulations. It is desirable to expand the role of private sector resources in the financing of sustainable forest management. The mobilization of private sector resources often requires policy adjustments in order to create enabling conditions for sustainable forest management such as appropriate legal and institutional frameworks and provision of incentives. In developing countries, the public funding related to forests, both domestic and international, including ODA, is needed for capacity-building, leveraging private-sector funding, and financing environmentally sound development projects and programmes for sustainable forest management according to national priorities.

5. Financial flows into the forest sector should support and be consistent with the development and implementation of national forest programmes and initiatives. In this regard, sustainable forest management should be considered one of the priorities in domestic financial resource allocation as well as in programming ODA available for forest-related activities.

6. The more efficient and effective use of all financial resources is enhanced by transparent and effective administrative and management arrangements, and the involvement and participation of interested parties. Adequate institutional capacity is essential for the better absorption and utilization of existing as well as additional international public funding for sustainable forest management. The provision of domestic and international financial resources to strengthen and reinforce institutional and management capacity in developing countries is therefore necessary.

7. Availability of timely and relevant information on financial flows from all sources and on financial mechanisms is instrumental in helping countries and their cooperation partners take more focused actions to support sustainable forest management. There is therefore a need to develop cost-effective and efficient information systems. Country case

studies could be useful to further understand the role of financial flows from different sources and to help ensure effectiveness in achieving sustainable forest management.

8. In the context of current mandates and frameworks of existing international financial institutions and programmes, the proposal for establishing an international financial mechanism to support sustainable forest management was deliberated upon. In this regard, it was proposed that an international fund for forests be established in order to support, *inter alia*, the additional costs during the transition period towards sustainable forest management, and that such an international financial arrangement or mechanism should preferably (a) involve participating donors and beneficiaries in relevant decision-making, (b) respond to national needs and support national forest programmes, (c) facilitate internalizing externalities of forests in promoting sustainable forest management, (d) build on or link with national financing mechanisms, (e) be transparent and administratively efficient, (f) complement the financing mechanisms of relevant multilateral agreements, and (g) have secure and sustained funding sources. However, reservations were also voiced regarding the establishment of an international fund for forests.

9. The concept of an international investment promotion entity to mobilize private sector investment in sustainable forest management deserves further consideration. Any such entity need not require the creation of a new organization and could be integrated within existing institutions. Such an investment promotion entity could catalyse and support activities related to information, capacity-building, technology transfer, and finance between the public and private sectors to facilitate investment in sustainable forest management. International financial and investment promotion mechanisms for sustainable forest management, though independent, could be complementary and mutually reinforcing.

10. IFF recognized that developed countries should fulfil the commitments they have undertaken to reach the accepted United Nations target of allocating 0.7 per cent of gross national product to ODA as soon as possible.

Proposals for action

11. IFF recalled the IPF proposals for action relevant to this programme element, including E/CN.17/1997/12, paragraphs 67-71, and called upon countries and relevant international organizations to:

(a) Increase financial resources and make or intensify efforts to improve the effectiveness and efficiency of available resources for sustainable forest management, and use national forest programmes or other integrated programmes as the basis for channelling, prioritizing and increasing financial assistance to the forest sector in developing countries;

(a) *bis*. [Give special consideration to providing financial assistance to developing countries, particularly the least developed countries and developing countries with low forest cover, to address their needs for forest products and services sustainably];

(b) Continue further exploration, identification, and development of [new and] improved and more effective financial mechanisms, and further explore the potential and results of innovative use of existing mechanisms to promote sustainable forest management, taking into account the full range of goods and services, including [forest related biological resources] [those related to biological diversity of forests], and sharing experience and information on such mechanisms;

(c) Encourage private investments in sustainable forest management by providing a stable and transparent investment environment within an adequate regulatory framework that also encourages the reinvestment of forest revenues into sustainable forest management;

(d) [Create an international forest fund to support, *inter alia*, the additional costs during the transition period towards sustainable forest management;]

(e) Undertake activities for systematic collection and analysis of financial flows data in the forest sector in order to enable informed and rational policy decisions based on reliable information;

(e) *bis*. [Consider the need for preparing a study integrating such issues as the valuation of forest goods and services, including biological resources, and the international trade of forest goods, taking due account of the effects of international restrictions, such as tariff escalations, and other protective measures];

(f) Make full use of the potential of existing mechanisms, such as the Global Environment Facility (GEF), consistent with their mandates[, and explore options to expand their scope] [, and review their scope] for financing a wider range of sustainable forest management activities;

(g) Explore the feasibility of operationalizing an investment promotion entity, taking into account the functions and circumstances under which such an entity would operate as well as its scope in relation to the existing financial mechanisms.